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Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-06 IO-10 ISO-00 SP-02 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 LAB-04 SIL-01 PA-01 PRS-01 INT-05 AGR-05

(ISO) W
---------- 124430
R 291250Z JUL 75
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AMCONSUL BOMBAY
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AMCONSUL HONG KONG
AMCONSUL KARACHI
TDDXRJQKAMCONSUL LAHORE 1629
USLO PEKING
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SUMMARY. WHOLESALE PRICE INDEX NOW LOWER THAN ONE YEAR AGO

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BUT MAY BE BOTTOMING OUT. AMBITIOUS GOVERNMENT ANNUAL ECONOMIC "PLAN" FOR 1975/76, WHICH PLACES MAJOR EMPHASIS ON INCREASED INDUSTRIAL AND MINERALS PRODUCTION, DOES NOT HAVE TOO MUCH ECONOMIC SIGNIFICANCE. CENTRAL GOVERNMENT 1975/1976 DEFICIT WILL BE HIGHER THAN ORIGINALLY ANTICIPATED. END SUMMARY.

1. LATEST OFFICIAL WHOLESALE PRICE INDEX FOR WEEK ENDING JULY 12. WAS APPROXIMATELY 2 PERCENT LOWER THAN SAME 1974 PERIOD. ANNUAL RATE OF BYICDMN FOR WHOLESALE PRICES HAS THUS TURNED NEGATIVE. GOVERNMENT SPOKESMEN HAVE BEEN EAGER TO PUBLICIZE THIS ACHIEVEMENT. HOWEVER, IT APPEARS FROM MORE RECENT ECONOMIC TIMES WHOLESALE INDEX THAT PRICES ARE NOW BOTTOMING OUT. CONSUMER PRICES ARE STILL APPARENTLY HIGHER THAN THEY WERE ONE YEAR AGO BECAUSE OF TIME LAG IN PRICE EFFECT. WHOLESALE PRICES OF INDUSTRIAL RAW MATERIALS ARE SHARPLY LOWER. FINANCE MINISTER SUBRAMANIAM HAS STATED THATHOI HAS MAJOR PRIORITY OF KEEPING PRICES DOWN FOR THE FIVE ESSENTIAL COMMODITIES - FOODGRAINS, EDIBLE OILS, SHAR, FUELS AND CLOTH. HE ALSO SAID THAT GOVERNMENT PLANS TO EXTEND PUBLIC DISTRIBUTION SYSTEM OF FOODGRAINS AND EDIBLE OILS AND BUILD UP BUFFER STOCKS.

2. GOVERNMENT HAS PRESENTED TO PARLIAMANT 1975-76 ANNUAL ECONOMIC "PLAN" OF RS.59.78 BILLION, AN INCREAS OF 23 PERCENT OVER PREVIOUS YEAR. PLAN IS INDICATIVE IN THAT IT PROPOSES EXPENDITURES BY BOTH CENTRAL AND STATE GOVERNMENTS, BUT IT IS NOT ACTUAL ALLOCATION OF FUNDS. RATHER, PLAN REFLECTS PLANNING COMMISSION'S VIEW OF LIKELY PRODUCTIVE EFFECT OF 1975-76 BUDGET EXPENDITURES BY CENTER AND STATES. INDUSTRY AND MINERALS SECTORS (COMBINED) ARE PROVIDED THE MOST INCREASE IN BOTH ABSOLUTE (RS.5.5 BILLION) AND PERCENTAGE (33.5) TERMS. EMPHASIS IN THESE SECTORS HAS BEEN PLACED ON INCREASED PRODUCTION OF COAL, FERTILIZER AND PETROLEUM PRODUCTS. NEW ANNUAL PLAN ALSO SUBSTANTIALLY INCREASES (30 PERCENT) HOPED FOR OUTLAYS FOR ELECTRICAL POWER. AGRICULTURE HAS RELATIVELY MODEST INCREASE OF LESS THAN 8 PERCENT. AMBITUOUS PLAN TARGETS INCLUDE 98 MILLION METRIC TONS (MT) OF COAL AND 114 MILLION MT OF FOODGRAINS. COPIES OF PLAN WILL BE POUCHED TO WASHINGTON WHEN AVAILABLE.

3. INDUSTRIES MINISTER PAI THREATENED THAT THE GOI WOULD CHANGE
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THE MANAGEMENT OF FIRMS WHICH FAILED TO REACH OUTPUT LEVELS OF 75 PERCENT OF INSTALLED CAPACITY. HE REPORTEDLY SAID THAT INDUSTRIAL GROWTH OF 8 PERCENT THIS FISCAL YEAR WAS "IMPERATIVE" AND CALLED FOR MORE EFFICIENT PLANT UTILIZATION. COMMENT: WE UNDERSTAND THAT BUSINESS UNCERTAINTY AND CONTINUING CREDIT SQUEEZE APPEAR TO BE STIFLING INCREASED INVESTMENT AND PRODUCTION. FOR EXAMPLE, THERE IS CURRENT GLUT OF STEEL IN INVENTORIES. END COMMENT.

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4. GOI HAS PRESENTED SUPPLEMENTARY BUDGET REQUEST FOR ADDITIONAL RS.2.6 BILLION IN NET EXPENDITURES. TOTAL ESTIMATED 1975-1976 BUDGETARY DEFICIT IS NOW APPROXIMATELY RS.5.2 BILLION. THIS DEFICIT WILL BE EVEN HIGHER BECAUSE OF RECENT INCREASE IN TAX EXEMPTION LIMIT FROM RS.6000 TO RS.8000. REDUCTION IN TAX LIABILITY WILL DECREASE ON A SLIDING SCALE IN ORDER TO PROTECT TAX PROGRESSIVITY, AND THOSE IN HIGHER INCOME BRACKET MAKING RS.15,000 PER YEAR AND ABOVE WILL GET ONLY NOMINAL BENEFIT. ANNUAL CENTRAL GOVERNMENT REVENUE LOSS FROM THESE CHANGES IS ESTIMATED AT APPROXIMATELY RS.210 MILLION.

5. THE LOK SABHA HAS APPROVED AMENDMENTS TO VARIOUS LAWS INCREASING GOVERNMENT POWERS ANDPENALTIES AGAINST TAX EVADERS AND ATTEMPTING TO CLOSE TAX LOOPHOLES. SUBRAMANIAM TOLD OCE LOK SABHA THAT THE GOI WAS CONSIDERING LEGISLATION OR CONSTITUTIONAL AMENDMENT, IF NECESSARY, TO PREVENT INTERFERENCE BY COURTS IN GOVERNMENT INVESTIGATION OF ECONOMIC OFFENSES. HE REFERRED TO THE INVESTIGATION PRESENTLY TAKING PLACE REGARDING UNREPORTED INCOME OF SOME BIG BUSINESS FIRMS. IN ANOTHER DEVELOPMENT THE GOI HAS ORDERED, EFFECTIVE NEXT SEPTEMBER 1, THAT MANUFACTURERS OR PACKERS OF ALL PACKAGED ARTICLES DISPLAY IDENTITY OF COMMODITY, NET WEIGHT OR MEASURE,DATE OF PACKAGING AND MAXIMUM SALE PRICE IN ORDER TO PROTECT CONSUMERS.

6. COMMENT: RECENT PRICE INCREASES FOR COAL, ELECTRICITY AND OTHER ITEMS, PLUS THE FACT THAT COMMODITY PRICES USUALLY GO UP IN THE SUMMER, MAY MEAN THAT WHOLESALE (AND RETAIL) PRICE INDICES WILL NOW BEGIN TO CREEP UP. NEW ANNUAL PLAN PROBABLY HAS NOT MUCH ECONOMIC SIGNIFICANCE. IN FIRST PLACE, INCREASE OF 23 PERCENT ONLY COMPENSATES FOR LAST YEAR'S INFLATION HERE. MANY OUTPUT TARGETS ARE OVERAMBITIOUS (NOTABLY IN AGRICULTURAL SECTOR), ALTHOUGH THEY ARE TECHNICALLY FEASIBLE. PRIORITIES OF PLAN
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GENERALLY FOLLOW PRESENTATION IN 1975/1976 CENTRAL GOVERNMENT BUDGET. ALSO, PLAN IS NOT BINDING AND WILL BE MODIFIED BY ECONOMIC REALITIES, PARTICULARLY IN ABSENCE OF ANY FIVE YEAR PLAN. GOVERNMENT IS ATTEMPTING TO HOLD DOWN BUDGET DEFICIT THIS YEAR, BUT SIGNIFICANCE OF RECENT SUPPLEMENTAL EXPENDITURE PROPOSAL WILL BECOME CLEARER ONLY LATER IN FISCAL YEAR WHEN WE HAVE BETTER PICTURE OF OVERALL CENTRAL GOVERNMENT EXPENDITURES AND REVENUES.
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